

WIFO

A-1103 WIEN, POSTFACH 91
TEL. 798 26 01 • FAX 798 93 86

 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

Exports Driving Activity

Economic Outlook for 2004 and 2005

October 2004

Exports Driving Activity

Economic Outlook for 2004 and 2005

Ewald Walterskirchen

Austrian Institute of Economic Research

October 2004

Exports Driving Activity

Economic Outlook for 2004 and 2005

The strengthening of global economic activity has initiated a recovery in Europe this year. Lively exports have led to a marked increase in manufacturing output. In Austria, as in the euro area as a whole, GDP is set to rise by 1.9 percent in volume in 2004. While world trade may lose momentum next year, growth in Europe should receive stronger support from domestic demand. However, the recent jump in oil prices constitutes a risk for the short-term outlook.

The cyclical recovery has gained pace in the first half of 2004. On the back of a revival in global economic activity and with the rise in the euro exchange rate levelling off, exports increased markedly. On annual average, GDP in Austria, as well as in the euro area, is expected to gain 1.9 percent. In 2005, due to the effects of the tax reform, growth may accelerate to 2.5 percent, outpacing that for the euro area. Demand forces are expected to shift gradually from exports towards investment and consumption. The stimulus from activity abroad, notably from the USA, is set to slacken next year. The major cyclical risks derive from a possible further rise in oil prices and from leakages in the transmission of the export boom to investment and consumer demand.

Exports are the only support to the recovery, growing by 8¼ percent in volume this year. Austrian companies are largely benefiting from being major suppliers of German manufacturers, and their price competitiveness has increased significantly over the medium term, enabling them to seize new opportunities on world markets. Value added of the manufacturing sector is projected to gain 4½ percent in volume in 2004, more than twice the rate for the whole economy. Next year, export growth is expected to decelerate in line with the profile of world trade, a further cyclical recovery thus relying more on domestic demand.

Higher exports and rising capacity utilisation, together with improved corporate earnings, should set in motion an upswing in investment. While the latest WIFO

investment survey points into that direction, such evidence is not yet confirmed by the official statistics for the first semester (abstracting from purchases of motor vehicles carried forward for tax reasons). Construction investment had provided major cyclical support in 2003, on account of public spending on civil engineering projects as well as pre-emptive implementation of projects in view of the abolition of the accelerated depreciation rule at the end of 2003. As a consequence, construction investment in 2004 is rising only slightly and less than anticipated.

Private consumption is growing by 1½ percent in 2004, considerably below its longer-term average. Real income gains are being squeezed by higher energy prices; yet, the private household saving ratio is not declining, despite the "forced consumption" induced by the high energy costs. The sustained increase in crude oil prices requires an upward correction of the inflation forecast: the rise in consumer prices will attain 2.1 percent in 2004 and edge down only slightly next year. The increase in energy prices is adding 0.3 percentage point to the inflation rate this year. While real earnings per employee are barely rising in 2004, the cuts in direct taxes in 2005 will boost real net incomes substantially. In addition, the expected marked increase in employment will raise disposable income. Private consumption growth should thus accelerate to 2.5 percent in 2005, thereby converging closely towards its medium-term trend.

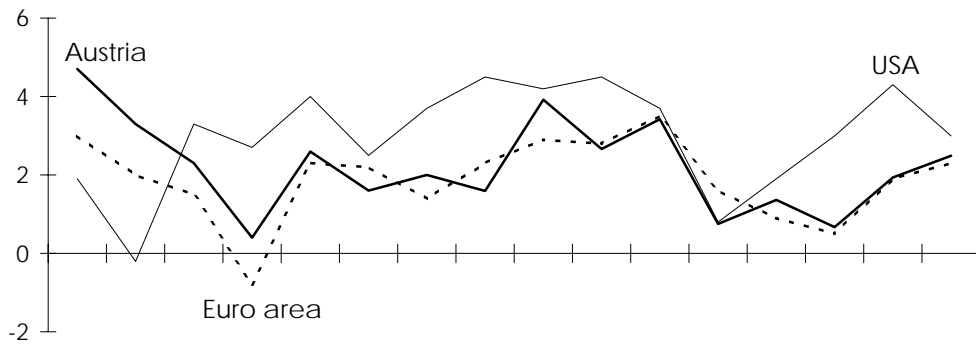
Employment has started reacting to the recovery of business activity. The number of economically active employees is projected to go up by 17,500 in 2004 and 28,000 in 2005. Increasingly, also new full-time jobs are being created. The number of people unemployed will edge up by a further 4,000 (to a total of 244,000) in 2004 and should fall by the same amount in 2005. Labour supply will continue to expand strongly in 2005, the inflow of foreign workers to the labour market staying lively.

The general government deficit in the Maastricht definition, projected at 1.3 percent of GDP for the current year, will turn out significantly higher than anticipated. The investment accrual tax premium ("Investitionszuwachsprämie") will lead to massive shortfalls in income and corporate tax revenues. Losses of receipts from VAT are likely to diminish in the second half of this year, given the likely solid increase in consumption. The upward correction of projected GDP growth, being confined to the export component, is hardly affecting expected government revenues. In 2005,

the general government deficit will be slightly below 2 percent of GDP, if the sizeable cut in income and corporate taxes can be partly offset by revenue-raising one-off measures.

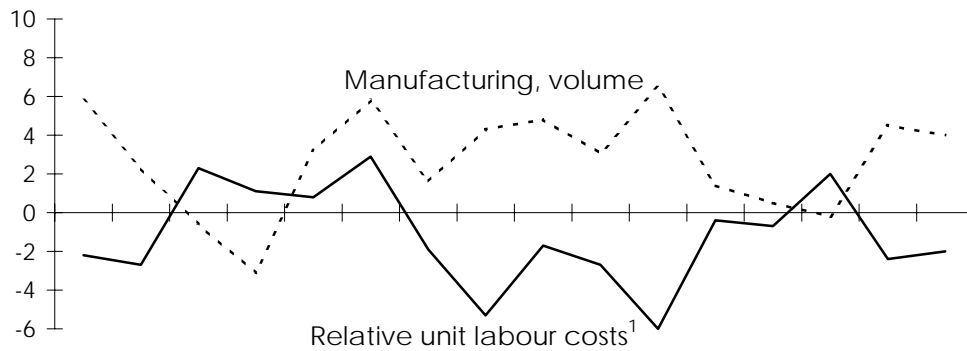
Growth of real GDP

In percent



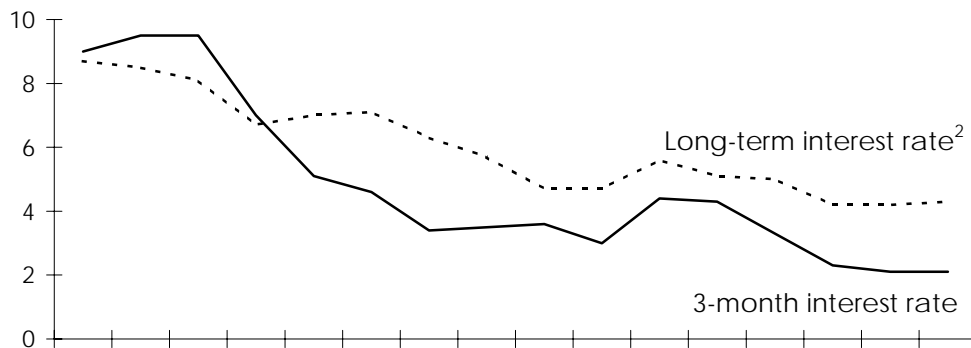
Competitiveness and manufacturing output

Percentage changes from previous year



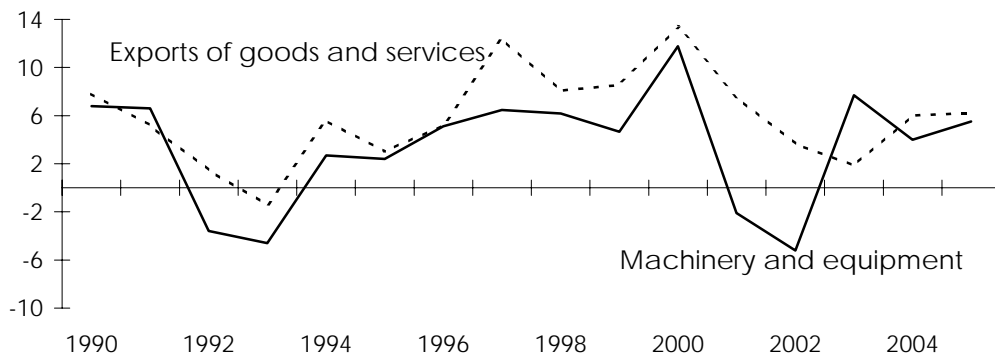
Short-term and long-term interest rates

In percent



Exports and investment (constant prices)

Percentage changes from previous year

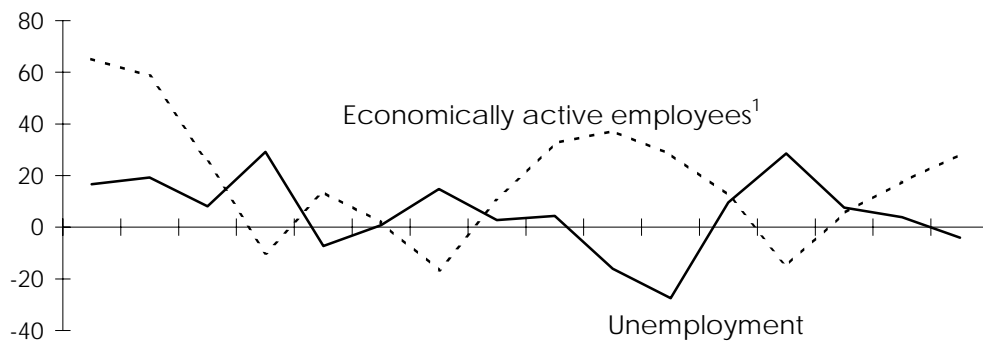


¹ Manufacturing; in a common currency vis-à-vis trading partners.

² 10-year central government bonds (benchmark).

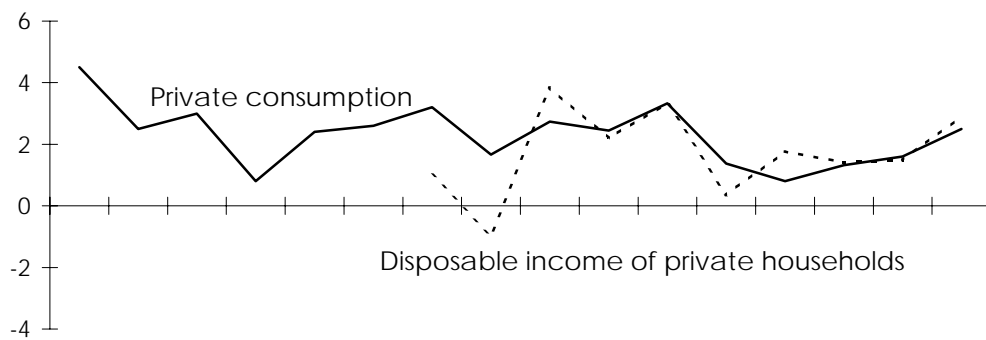
Employment and unemployment

1,000^s from previous year



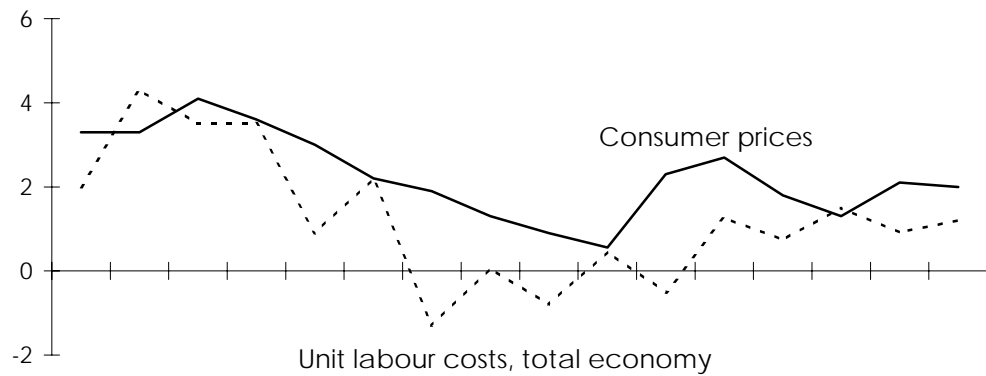
Consumption and income (constant prices)

Percentage changes from previous year



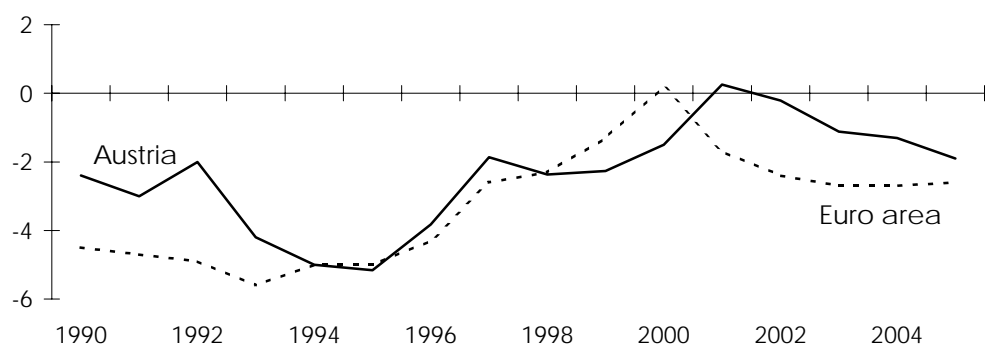
Inflation and unit labour costs

Percentage changes from previous year



General government financial balance

As a percentage of GDP



¹ Excluding parental leave, military service, and unemployed persons in training.

WIFO

Projections - September 2004

Main results

Changes from previous year

		2000	2001	2002	2003	2004	2005
GDP							
Volume		+ 3.4	+ 0.8	+ 1.4	+ 0.7	+ 1.9	+ 2.5
Value		+ 4.9	+ 2.8	+ 2.7	+ 2.6	+ 3.3	+ 4.3
Manufacturing¹, volume							
		+ 6.4	+ 1.5	+ 0.5	- 0.2	+ 4.5	+ 4.0
Wholesale and retail trade, volume							
		+ 3.7	- 0.0	+ 1.2	+ 1.3	+ 1.3	+ 2.5
Private consumption expenditure, volume							
		+ 3.3	+ 1.4	+ 0.8	+ 1.3	+ 1.6	+ 2.5
Gross fixed investment, volume							
		+ 6.2	- 2.3	- 2.8	+ 5.3	+ 2.2	+ 3.5
Machinery and equipment ²		+ 11.8	- 2.1	- 5.2	+ 7.7	+ 4.0	+ 5.5
Construction		+ 1.9	- 2.5	- 0.7	+ 3.3	+ 0.7	+ 1.7
Exports of goods³							
Volume		+ 13.1	+ 7.5	+ 5.2	+ 2.7	+ 8.3	+ 6.8
Value		+ 15.6	+ 6.5	+ 4.2	+ 1.9	+ 9.5	+ 7.5
Imports of goods³							
Volume		+ 10.9	+ 5.7	+ 0.8	+ 6.3	+ 5.3	+ 7.1
Value		+ 14.7	+ 5.0	- 2.0	+ 5.0	+ 7.5	+ 7.8
Current balance							
	€ bn	- 5.36	- 4.13	+ 0.36	- 2.04	- 1.62	- 1.92
As a percentage of GDP	percent	- 2.6	- 1.9	+ 0.2	- 0.9	- 0.7	- 0.8
Long-term interest rate⁴							
	percent	5.6	5.1	5.0	4.2	4.2	4.3
Consumer prices							
		+ 2.3	+ 2.7	+ 1.8	+ 1.3	+ 2.1	+ 2.0
Unemployment rate							
Eurostat definition ⁵	percent	3.7	3.6	4.2	4.1	4.2	4.1
National definition ⁶	percent	5.8	6.1	6.9	7.0	7.1	6.9
Economically active employees⁷							
		+ 0.9	+ 0.4	- 0.5	+ 0.2	+ 0.6	+ 0.9
General government financial balance							
	according to Maastricht definition						
As a percentage of GDP	percent	- 1.5	+ 0.3	- 0.2	- 1.1	- 1.3	- 1.9

¹ Value added, including mining and quarrying. ² Including other products. ³ According to Statistics Austria.

⁴ 10-year central government bonds (benchmark). ⁵ According to Eurostat Labour Force Survey. ⁶ According to Labour Market Service, percent of total labour force excluding self employed. ⁷ Excluding parental leave, military service, and unemployed persons in training.

WIFO

Projections - September 2004

Key policy indicators

	2000	2001	2002	2003	2004	2005
Fiscal policy						
	As a percentage of GDP					
General government financial balance						
according to Maastricht definition	- 1.5	+ 0.3	- 0.2	- 1.1	- 1.3	- 1.9
according to National accounts	- 1.7	+ 0.1	- 0.4	- 1.3	- 1.4	- 2.0
General government primary balance	+ 2.2	+ 3.8	+ 3.1	+ 1.9	+ 1.8	+ 1.2
Monetary policy						
	Percent					
3-month interest rate	4.4	4.3	3.3	2.3	2.1	2.1
Long-term interest rate ¹	5.6	5.1	5.0	4.2	4.2	4.3
	Percentage changes from previous year					
Effective exchange rate						
Nominal	- 2.5	+ 1.0	+ 1.4	+ 3.8	+ 0.9	+ 0.3
Real	- 3.4	+ 0.3	+ 0.6	+ 2.8	+ 0.9	+ 0.7

¹ 10-year central government bonds (benchmark).

WIFO*Projections - September 2004***World economy**

Percentage changes from previous year

	2000	2001	2002	2003	2004	2005	
Real GDP							
Total OECD	+ 3.9	+ 1.0	+ 1.8	+ 2.1	+ 3.3	+ 2.7	
USA	+ 3.7	+ 0.8	+ 1.9	+ 3.0	+ 4.3	+ 3.0	
Japan	+ 2.8	+ 0.4	- 0.3	+ 2.5	+ 3.5	+ 2.8	
EU 25	+ 3.6	+ 1.7	+ 1.1	+ 0.9	+ 2.3	+ 2.5	
EU 15	+ 3.6	+ 1.7	+ 1.0	+ 0.8	+ 2.2	+ 2.4	
Euro area	+ 3.5	+ 1.6	+ 0.9	+ 0.5	+ 1.9	+ 2.3	
Germany	+ 2.9	+ 0.8	+ 0.2	- 0.1	+ 1.7	+ 1.8	
New Member States	+ 4.1	+ 2.5	+ 2.4	+ 3.6	+ 4.0	+ 4.3	
China	+ 8.0	+ 7.3	+ 8.0	+ 9.1	+ 9.0	+ 8.0	
World trade, volume	+ 12.4	+ 0.3	+ 3.3	+ 4.1	+ 8.5	+ 7.0	
Market growth²	+ 12.0	+ 2.4	+ 1.8	+ 4.4	+ 7.0	+ 6.5	
Primary commodity prices							
HWWA Index, total	+ 51	- 8	- 5	- 4	+ 16	+ 7	
Excluding energy	+ 19	- 3	- 6	- 6	+ 12	+ 10	
Crude oil prices							
Average import price (cif)							
for OECD countries	USD/barrel	28.0	23.6	24.1	28.4	36.0	38.0
Exchange rate							
USD per euro		0.924	0.896	0.945	1.13	1.23	1.23

¹ Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.

² Real import growth of trading partners weighted by Austrian export shares.

WIFO

Projections - September 2004

Private consumption, income and prices

	2000	2001	2002	2003	2004	2005
Percentage changes from previous year, volume						
Private consumption expenditure	+ 3.3	+ 1.4	+ 0.8	+ 1.3	+ 1.6	+ 2.5
Durables	+ 3.9	+ 1.8	+ 3.6	+ 0.8	+ 3.5	+ 5.5
Non-durables and services	+ 3.2	+ 1.3	+ 0.4	+ 1.4	+ 1.3	+ 2.0
Household disposable income	+ 3.3	+ 0.4	+ 1.8	+ 1.4	+ 1.5	+ 2.9
Household saving ratio						
As a percentage of disposable income	8.4	7.5	8.2	8.4	8.4	8.9
Percentage changes from previous year						
Direct lending to domestic non-banks¹	+ 6.7	+ 3.5	+ 1.2	+ 1.6	+ 4.6	+ 5.4
Percent						
Inflation rate						
National	2.3	2.7	1.8	1.3	2.1	2.0
Harmonised	2.0	2.3	1.7	1.3	2.1	1.9
Core inflation ²	0.9	2.3	2.0	1.3	1.7	1.6

¹ End of period.

² Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

WIFO

Projections - September 2004

Productivity

Percentage changes from previous year

	2000	2001	2002	2003	2004	2005
Total economy						
Real GDP	+ 3.4	+ 0.8	+ 1.4	+ 0.7	+ 1.9	+ 2.5
Employment ¹	+ 0.8	+ 0.6	- 0.2	- 0.1	+ 0.5	+ 0.9
Full-time equivalent	+ 1.0	+ 0.6	- 0.0	+ 0.1	+ 0.3	+ 0.7
Productivity (GDP per employment)	+ 2.6	+ 0.1	+ 1.6	+ 0.8	+ 1.4	+ 1.6
Full-time equivalent	+ 2.4	+ 0.1	+ 1.4	+ 0.5	+ 1.7	+ 1.8
Manufacturing						
Production ²	+ 6.5	+ 1.4	+ 0.5	- 0.2	+ 4.5	+ 4.0
Employees ³	+ 0.0	+ 0.2	- 2.5	- 1.7	- 0.5	± 0.0
Productivity per hour	+ 6.6	+ 1.6	+ 3.6	+ 1.3	+ 4.8	+ 3.8
Working hours per day per employee ⁴	- 0.1	- 0.4	- 0.5	+ 0.2	+ 0.2	+ 0.2

¹ Dependent and self-employed according to National Accounts definition.

² Value added, volume.

³ According to Federation of Austrian Social Security Institutions.

⁴ According to 'Konjunkturerhebung' of Statistics Austria.

WIFO

Projections - September 2004

Earnings and international competitiveness

Percentage changes from previous year

	2000	2001	2002	2003	2004	2005
Gross earnings per employee ¹	+ 2.5	+ 1.4	+ 2.2	+ 2.3	+ 2.4	+ 2.8
Full-time equivalent	+ 2.6	+ 1.4	+ 2.1	+ 2.5	+ 2.9	+ 3.2
Gross real earnings per employee ¹	+ 1.0	- 0.8	+ 1.0	+ 0.5	+ 0.3	+ 0.8
Net real earnings per employee ¹	+ 1.6	- 1.1	+ 0.8	+ 0.2	+ 0.6	+ 2.0
Net wages and salaries	+ 4.5	+ 2.1	+ 2.5	+ 2.7	+ 2.6	+ 4.2
<i>Total economy</i>						
Unit labour costs	- 0.5	+ 1.3	+ 0.7	+ 1.5	+ 0.9	+ 1.2
<i>Manufacturing</i>						
Unit labour costs	- 5.0	+ 1.6	- 0.7	+ 0.3	- 2.5	- 1.3
Relative unit labour costs ²						
Vis-à-vis trading partners	- 6.0	- 0.4	- 0.7	+ 2.0	- 2.4	- 2.0
Vis-à-vis Germany	- 2.3	- 0.1	- 0.5	+ 0.2	- 2.9	- 1.8
Effective exchange rate - manufactures						
Nominal	- 2.7	+ 0.9	+ 1.3	+ 3.7	+ 0.8	+ 0.2
Real	- 3.3	+ 0.5	+ 0.8	+ 2.9	+ 1.0	+ 0.7

¹ Employees according to National Accounts definition.

² In a common currency; minus sign indicates improvement of competitiveness.

WIFO

Projections - September 2004

Labour market

Changes from previous year (1,000⁵)

		2000	2001	2002	2003	2004	2005
Demand for labour							
Economically active employment ¹		+ 30.1	+ 13.9	- 11.6	+ 8.5	+ 20.7	+ 31.5
Employees ²		+ 28.2	+ 12.4	- 15.0	+ 5.5	+ 17.5	+ 28.1
Percentage changes from previous year		+ 0.9	+ 0.4	- 0.5	+ 0.2	+ 0.6	+ 0.9
Nationals		+ 14.8	+ 3.0	- 20.1	- 10.4	+ 4.5	+ 7.0
Foreign workers		+ 13.4	+ 9.5	+ 5.1	+ 15.9	+ 13.0	+ 21.1
Self-employed ³		+ 1.9	+ 1.5	+ 3.4	+ 3.0	+ 3.2	+ 3.4
Labour supply							
Population of working age	(15 to 64 years)	+ 27.0	+ 27.5	+ 27.0	+ 29.1	+ 11.7	- 4.0
	(15 to 59 years)	- 16.5	- 13.8	- 1.2	+ 12.3	+ 14.3	+ 26.3
Labour force ⁴		+ 2.7	+ 23.5	+ 17.0	+ 16.1	+ 24.6	+ 27.5
Surplus of labour							
Registered unemployed ⁵		- 27.4	+ 9.6	+ 28.5	+ 7.7	+ 3.9	- 4.0
	1,000 ⁵	194.3	203.9	232.4	240.1	244.0	240.0
Unemployment rate							
Eurostat definition ⁶	percent	3.7	3.6	4.2	4.1	4.2	4.1
Percent of total labour force ⁵	percent	5.3	5.5	6.2	6.3	6.4	6.2
National definition ^{5,7}	percent	5.8	6.1	6.9	7.0	7.1	6.9
Employment rate							
Economically active employment ^{1,8}	percent	63.3	63.3	62.8	62.6	62.8	63.4
Total employment(Eurostat) ^{6,8}	percent	68.5	68.5	69.2	69.2	69.4	69.6

¹ Excluding parental leave, military service, and unemployed persons in training. ² According to Federation of Austrian Social Security Institutions. ³ According to WIFO. ⁴ Economically active employment plus unemployment.

⁵ According to Labour Market Service. ⁶ According to Eurostat Labour Force Survey.

⁷ Percent of total labour force excl. self-employed. ⁸ Percent of population of working age (15 to 64 years).

© 2004 Österreichisches Institut für Wirtschaftsforschung

Medieninhaber (Verleger), Herausgeber und Hersteller: Österreichisches Institut für Wirtschaftsforschung,
Wien 3, Arsenal, Objekt 20 • Postanschrift: A-1103 Wien, Postfach 91 • Tel. (+43 1) 798 26 01-0 •
Fax (+43 1) 798 93 86 • <http://www.wifo.ac.at/> • Verlags- und Herstellungsort: Wien

Verkaufspreis: 15,00 €, Download 15,00 €:

http://publikationen.wifo.ac.at/pls/wifosite/wifosite.wifo_search.get_abstract_type?p_language=1&pubid=25301